

**REPORT OF THE AUDIT OF THE  
MORGAN COUNTY  
SCHOOL DISTRICT**

**For The Fiscal Year Ended  
June 30, 2013**

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Members of the Board  
Morgan County School District  
West Liberty, Kentucky

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Morgan County School District, West Liberty, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Morgan County School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 38 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morgan County School District's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis are required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

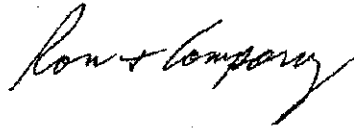
The introductory section statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of the Morgan County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* considering Morgan County School Districts' internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross and Company".

Ross and Company, PLLC  
November 12, 2013

**MORGAN COUNTY SCHOOL DISTRICT  
WEST LIBERTY, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

As management of the Morgan County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning fund balance for fund 1 for the District was \$5,695,717 which includes Site Based CWFD in the amount of \$12,558 and restricted sick leave in the amount of \$131,123. The CWFD amount was re-budgeted in the per pupil accounts for designated schools. The ending fund balance for fund 1 was \$2,364,241, which includes committed Site Based CWFD in the amount of \$3,468 and will be budgeted appropriately for FY 2014. The FY13 fund balance also included \$105,236 for current portion of restricted sick leave liability. General Fund currently has \$1,575,000 invested in CD's.
- The General Fund had \$21,145,576 in revenue, including beginning balance and inter-fund transfers, which primarily consisted of the state program (SEEK), property, utility, motor vehicle taxes, and Universal Service Fund reimbursement. There were \$18,781,335 in General Fund expenditures including \$474,418 in tornado related expenses and \$2,966,158 in inter-fund transfers which involved KETS and board/insurance related projects. Also included within this amount is \$105,236 budgeted for sick leave with an actual of \$40,625 paid out and long term sick leave liability reflected in the notes to the financial statements. On-behalf payments of \$2,963,806 are included in both revenue and expenditures.
- Work continues on the new Wrigley Elementary School. The project is estimated to be completed by December, 2013 with a revised BG-1 cost of \$15,065,405.
- The cost of diesel /gasoline fuel for the district actually increased by \$1,663 from last year due the continuing increase of rates for fuel. General fund absorbed fuel cost (0699-fuel reimbursement code) in the amount of \$112,714 for athletic and academic trips which increased by \$22,153 from last year. The cost for fuel would be considerably higher if PTO's and Fund 2 grants did not continue supporting this excessive cost.
- The board also supplements various other areas including health nurses/supplies \$71,715; Speech Therapy \$71,559; Physical Therapy \$11,518; Occupational Therapy \$16,201; Gifted and Talented \$12,013; Technology \$13,176; Band \$25,885 (Bought new uniforms \$22,242); Athletics (MCHS/MCMS) \$12,198; Academics (MCMS/MCHS) \$1,788; Vocational \$6,892; Textbooks \$12,979 and Competition Based/District/Regional/National \$26,885. The combined total of all of these programs was \$150,007 less than budget of \$432,816.
- Salaries exceeded the original budgeted amounts due to midyear raises. On November 1, 2012, the board awarded a 1% raise to all staff. Then on January 1, 2013 the board amended several classified categories by raising each cell in those categories by \$1 per hour.
- The overall utilities reflected an increase of \$27,840 in the district from last year.

### FINANCIAL HIGHLIGHTS (CONTINUED)

- The Kentucky Retirement Systems notified the district of an increase in the employer contribution for CERS (classified staff) from 18.96 percent for FY11 to 19.55 percent for FY12 which cost the district an additional \$14,647. Kentucky Teachers' Retirement (certified staff) employer contributions continue to increase. Per law, KTRS employer contributions will increase in increments until it reaches 3% by FY 2016 (FY 2012--.5%; FY 2013--1.0%, FY 2014--1.5%, FY 2015--2.25%, FY 2016--3.0%).
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. Four new buses were purchased this year and final payments were made on Series 2003 with the combined KISTA payments decreasing by \$6,386.43. The notes to the financial statements reflect liability for KISTA technology and bus leases per paying agents for the district. The paying agent for buses is Monticello Banking Company \$194,088 and Bank of New York \$23,056.
- While there was no impact to this fiscal year's budget due to the dissolving of KSBIT, the district will budget for the yearly estimated amount of the Novation payout option.

### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**District-wide financial statements.** The district-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of activities presents information showing how the District's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's Net Position changed during the most recent fiscal year. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities.) The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 11 and 12.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative



## OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

software. The District used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are the day care and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13 and 15.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

The notes to the financial statement can be found on pages 22-37.

## DISTRICT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$19,184,535 as of June 30, 2013.

A portion of the District's Net Position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District used these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition of capital assets, and the depreciation of capital assets.

### Net Position for the period ending June 30, 2012 and 2013, respectively:

ASSETS	2012	2013
Total current assets	\$ 19,619,503	\$ 12,713,835
Total non-current assets	22,679,456	30,498,609
Total assets	<u>\$ 42,298,959</u>	<u>\$ 43,212,444</u>
LIABILITIES		
Total current liabilities	\$ 2,529,108	\$ 3,460,013
Total non-current liabilities	20,036,174	20,567,896
Total liabilities	<u>\$ 22,565,282</u>	<u>\$ 24,027,909</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 1,596,491	\$ 8,676,948
Restricted	13,166,961	8,117,251
Unrestricted	4,970,225	2,390,336
Total Net Position	<u>\$ 19,733,677</u>	<u>\$ 19,184,535</u>

Please see Table 1 on page 7 and Table 2 on page 9, which present comparison summaries of revenues and expenses for the current fiscal year ended and the previous year FY2012.

MORGAN COUNTY SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2013  
(Continued)

**Table 1**

	General Fund		Special Revenue		Food Service	
	2012	2013	2012	2013	2012	2013
<b>Revenues/Sources:</b>						
Local Revenue Sources	\$ 2,500,894	\$2,711,240	\$ 54,425	\$85,924	\$ 233,639	246,296
State Revenue Sources	12,630,202	12,628,656	617,249	535,341	237,479	100,917
Federal Revenue Sources	70,686	28,469	2,755,618	2,025,169	985,453	1,034,950
Fund Transfer	48,052	76,710	22,138	45,498	-	49,197
Other	3,547,848	4,784	-	-	-	-
Totals	\$18,797,682	15,449,859	\$3,449,430	\$2,691,932	\$,456,570	\$1,431,360
<b>Expenditures/Expenses:</b>						
Instruction	\$7,928,706	\$ 8,447,864	\$2,417,134	\$1,919,206	\$ -	\$ -
Student Support Services	751,486	816,078	162,693	79,481	-	-
Instructional Staff Support Services	505,627	584,537	397,625	333,973	-	-
District Admin Support	617,385	579,409	2,525	457	-	-
School Admin Support	915,520	1,057,286	97,773	-	-	-
Business Support Services	452,895	495,136	26,558	-	-	-
Plant Operation & Management	2,278,503	2,279,788	4,240	18,660	-	-
Student Transportation	1,498,085	1,511,784	18,486	25,316	-	-
Food Service Operation	-	-	-	-	1,480,576	1,510,616
Community Services	20,107	43,295	322,396	314,839	-	-
Land Improvements	5,277	-	-	-	-	-
Debt Service	223,531	-	-	-	-	-
Fund Transfer	22,138	2,966,158	-	-	-	-
Totals	15,254,845	18,781,335	3,449,430	2,691,932	1,480,576	1,510,616
<b>Excess of Revenues Over Expenditures</b>	<b>\$ 3,542,837</b>	<b>\$(3,331,476)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$(24,005)</b>	<b>\$(79,256)</b>

*\*Note This Table does not include beginning balances or depreciation expenses but does reflect on-behalf payments made by KDE. The chart does not include Fund 54 (Community Education). Fund 54 started with \$95 with additional revenues of \$195 and had expenditures totaling \$267 for FY13.*

**Comments on Budget Comparisons**

- The District's total General Fund revenue for the fiscal year ended June 30, 2013 were \$21,145,576 including a beginning balance of \$5,695,717.
- General fund budget expenditures to actual varied from line item to line item with the ending actual expenditures being \$1,835,739 less than budget by 10.40% favorable percentage points.

MORGAN COUNTY SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2013  
(Continued)

**FY-2013 Summary Revenue/Expenditures**

**Fund 1-General Fund**

The majority of revenue was derived from State Revenue (81.7%) with local funding making up 17.5% of total revenue. The greatest amount of revenue is spent on instruction expenditures. This makes up 45% of the actual budget. The instruction function includes the SBDM expenditures for staff and supplies. The student support services make up 4% which includes attendance services, guidance counseling, health services, psychological testing; speech, hearing, and vision services. The instructional staff support makes up 3% which includes staff support personnel and librarians. The district administration support makes up 3% which includes workers comp, sick leave pay for retirees, contingency, property insurance, tax collection fees, and superintendent's office expenses. The school administration support makes up 6% which includes principals and secretaries expenses. The business support services makes up 3% which includes the finance office and other central office expenditures. The plant operation and management makes up 12%. The student transportation makes up 8%. Community services makes up less than 1% which includes activities concerned with providing services to students, staff, or the community which are not considered instructional. Fund Transfers makes up 16% which consist of KETS, insurance board approved projects, and KISTA payments.

**Fund 2-Special Revenue Fund**

The majority of revenue was derived from federal sources 75% with the state revenue making up 20% and the remaining 5% derived from local sources and fund transfers. The function with the greatest expenditure is instruction being 71%.

**Fund 51-Food Service Fund**

Revenue is received from local, state, and federal monies. The largest being federal which makes up 72%, state 7%, local 17% and fund transfer due to insurance of 3%. Fund 51 (food service) currently maintains a C.D. in the amount of \$50,000 and restricted sick leave in the amount of \$3,077 with an actual payout of \$6635 due to retirement. Proprietary funds consist of food service account and funds and Fund 54 (Community Ed). Fund 54 ended the year with a balance of \$23.

MORGAN COUNTY SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2013  
(Continued)

**FY-2013 Summary Revenue/Expenditures (Continued)**

**Table 2**

	<b>Capital Outlay</b>		<b>FSPK</b>		<b>Construction Fund</b>	
	2012	2013	2012	2013	2012	2013
<b>Revenues:</b>						
Local Revenue Sources	\$ -	\$ -	\$ 190,440	\$ 194,847	\$ -	\$ -
State Revenue Sources	188,599	186,353	474,123	480,682	-	-
Fund Transfers	-	-	-	-	76,148	3,345,884
Other	-	-	-	-	13,141,208	811,129
<b>Totals</b>	<b>\$ 188,599</b>	<b>\$ 186,353</b>	<b>\$ 664,563</b>	<b>\$ 675,529</b>	<b>\$ 13,217,356</b>	<b>\$ 4,157,013</b>
<b>Expenditures:</b>						
Plant Operation Management	\$ 27,318	\$ -	\$ -	\$ -	\$ -	\$ -
New Bldg Construction	-	-	-	-	2,039,812	7,510,239
Renovations	-	-	-	-	707,880	805,739
Site Improvement	-	-	-	-	-	\$107,982
Other	-	-	-	-	-	85,688
Debt Service	-	-	401,665	-	-	-
Fund Transfers	124,200	241,650	-	1,201,976	-	-
<b>Totals</b>	<b>151,518</b>	<b>241,650</b>	<b>401,665</b>	<b>1,201,975</b>	<b>\$ 2,747,692</b>	<b>\$8,509,648</b>
<b>Excess of Revenues Over Expenditures</b>	<b>\$ 37,081</b>	<b>\$ (55,297)</b>	<b>\$ 262,898</b>	<b>\$ (526,447)</b>	<b>\$10,469,664</b>	<b>(4,352,635)</b>

**Fund 310 and Fund 320**

Fund 310 is the Capital Outlay Fund and Fund 320 is the building fund (FSPK). State funding makes up the Capital Outlay and the Building Fund is made up of state and local revenue. During the FY13 school year FSPK funds were used to make bond payments on existing debt. Capital Outlay funds supported BG-1 maintenance replacement of gym lights at East Valley Elementary, Morgan County Middle School, and Morgan County High School in the amount of \$17,318; Replacement of the HVAC at Morgan County High School Gymnasium in the amount of \$129,406; Prior escrowed funds in the amount of \$18,215 were un-escrowed and transferred to Wrigley Elementary project. Property insurance payments for the district were also made in the amount of \$47,736 and general fund maintenance projects totaling \$28,974.

**Fund 360**

This is the Construction Fund used for new building or renovations. The restricted fund balance for FY13 totals \$7,493,082. Included in this balance is \$5,491,143 from construction of the new elementary school which will replace West Liberty Elementary along with balances from prior and current BG-1's transferred from Capital Outlay for maintenance projects and insurance money related to tornado damages/losses in the district.

MORGAN COUNTY SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2013  
(Continued)

**FY-2013 Summary Revenue/Expenditures (Continued)**

**Fund 400**

FY 13 is the first year fund 400 is required to be utilized for debt service payment. The amounts for KISTA payments were transferred from general fund and bond payments from fund 320 (building fund) in the amount of \$892,495. On-behalf payments in the amount of \$924,760 are also reflected in fund 400.

**BUDGETARY IMPLICATIONS**

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. Per PSD/CSD data submitted to Kentucky Department of Education certified staff decreased 6 and Classified 1 from last year. Due to the reduction in ADA and state revenue the districts' SEEK money continues to decrease in comparison to cost of operation for the district. SEEK is the district's major source of revenue. Another area of concern, we did not receive itemized documentation per KRS 160.500; OAG 74-595 for the 4% tax collection fee paid to the sheriff's department for FY13 and for previous years.

Questions regarding this report should be directed to the **Finance Officer, Sharon Dye** at (606) 743-8002 or by mail at Morgan County Board of Education, 212 University Drive, West Liberty, Kentucky 41472.

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**DISTRICT WIDE**

As of June 30, 2013

ASSETS	Governmental Activities	Business-type Activities	Total
<b>Current Assets</b>			
Cash and cash equivalents	\$ 9,278,299	\$ 162,973	\$ 9,441,272
Investments	1,575,000	50,000	1,625,000
Other receivables	548,062	26,806	574,868
Inventory	-	20,138	20,138
Bond Issuance Cost	1,052,557	-	1,052,557
<b>Total current assets</b>	<u>12,453,918</u>	<u>259,917</u>	<u>12,713,835</u>
<b>Non-current Assets</b>			
Land	1,089,020	-	1,089,020
Land Improvements	725,120	-	725,120
Buildings and improvements	25,834,648	-	25,834,648
Furniture and equipment	7,992,208	805,677	8,797,885
Construction in progress	9,299,679	-	9,299,679
Less: Accumulated depreciation	(14,673,598)	(574,145)	(15,247,743)
<b>Total non-current assets</b>	<u>30,267,077</u>	<u>231,532</u>	<u>30,498,609</u>
<b>Total assets</b>	<u>\$ 42,720,995</u>	<u>\$ 491,449</u>	<u>\$ 43,212,444</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 1,126,712	\$ 216	\$ 1,126,928
Deferred revenue	154,250	4,235	158,485
Interest payable	692,662	-	692,662
Current portion of long-term obligations	1,170,000	-	1,170,000
Current portion of long-term capital lease obligations	203,625	-	203,625
Current portion of sick-leave	105,236	3,077	108,313
<b>Total current liabilities</b>	<u>3,452,485</u>	<u>7,528</u>	<u>3,460,013</u>
<b>Non-current Liabilities</b>			
Non-current portion of long-term obligation	19,319,000	-	19,319,000
Non-current portion of long-term capital lease obligations	1,129,036	-	1,129,036
Non-current portion of accrued sick leave	119,860	-	119,860
<b>Total non-current liabilities</b>	<u>20,567,896</u>	<u>-</u>	<u>20,567,896</u>
<b>Total liabilities</b>	<u>\$ 24,020,381</u>	<u>\$ 7,528</u>	<u>\$ 24,027,909</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	\$ 8,445,416	\$ 231,532	\$ 8,676,948
Restricted for:			
Capital projects	7,756,158	-	7,756,158
New Assets	-	229,173	229,173
Other	108,704	23,216	131,920
Unrestricted	2,390,336	-	2,390,336
<b>Total net position</b>	<u>18,700,614</u>	<u>483,921</u>	<u>19,184,535</u>
<b>Total liabilities and net position</b>	<u>\$ 42,720,995</u>	<u>\$ 491,449</u>	<u>\$ 43,212,444</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements.

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**DISTRICT WIDE**

For the year ended June 30, 2013

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>						
Instruction	\$ 9,300,883	\$ -	\$ 1,873,654	\$ -	\$ (7,427,229)	\$ (7,427,229)
Support services:						
Student	900,276	-	79,481	-	(820,795)	(820,795)
Instruction staff	906,236	-	333,973	-	(572,263)	(572,263)
District administrative	592,825	-	457	-	(592,368)	(592,368)
School administrative	1,062,045	-	-	-	(1,062,045)	(1,062,045)
Business	460,767	-	-	-	(460,767)	(460,767)
Plant operation and maintenance	2,577,834	-	18,660	-	(2,559,174)	(2,559,174)
Student transportation	1,771,028	-	25,316	-	(1,745,712)	(1,745,712)
Facilities acquisition and construction	1,620,457	-	-	-	(1,620,457)	(1,620,457)
Community service activities	358,134	-	314,839	-	(43,295)	(43,295)
Other	70,666	-	-	-	(70,666)	(70,666)
Interest on long-term debt	582,339	-	25,000	-	(557,339)	(557,339)
<b>Total governmental activities</b>	<b>20,203,490</b>	<b>-</b>	<b>2,671,380</b>	<b>(17,532,110)</b>		<b>(17,532,110)</b>
<b>Business-type Activities</b>						
Food service	1,527,109	245,623	1,135,867	-	(145,619)	(145,619)
Community Education	267	195	-	-	(72)	(72)
<b>Total business-type activities</b>	<b>1,527,376</b>	<b>245,818</b>	<b>1,135,867</b>	<b>-</b>	<b>(145,691)</b>	<b>(145,691)</b>
<b>Total school district</b>	<b>\$ 21,730,866</b>	<b>\$ 245,818</b>	<b>\$ 3,807,247</b>	<b>\$ (17,532,110)</b>	<b>\$ (145,691)</b>	<b>\$ (17,677,801)</b>
<b>General Revenues</b>						
Property taxes	\$	1,421,812		\$	-	\$ 1,421,812
Delinquent property tax		113,834			-	113,834
Motor vehicle taxes		366,919			-	366,919
Unmined minerals tax		13,451			-	13,451
Utility taxes		669,181			-	669,181
Other taxes		216,670			-	216,670
Investment earnings		20,670			673	21,343
State aid formula grants		14,248,920			-	14,248,920
Gain on sale of fixed assets		(26,779)			(510)	(27,289)
Miscellaneous		83,818			-	83,818
Transfers		(49,197)			49,197	-
<b>Total general revenues</b>		<b>17,079,299</b>			<b>49,360</b>	<b>17,128,659</b>
Change in net position		(452,811)			(96,331)	(549,142)
Net position - beginning		19,153,425			580,252	19,733,677
Net position - ending		<b>18,700,614</b>			<b>\$ 483,921</b>	<b>\$ 19,184,535</b>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements.

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

As of June 30, 2013

	General Fund	Special Revenue	Construction Fund	Other Governmental	Total Governmental
<b>ASSETS</b>					
Cash and cash equivalents	\$ 711,366	\$ (214,706)	\$ 8,518,563	\$ 263,076	\$ 9,278,299
Investments	1,575,000	-	-	-	1,575,000
Other receivables	174,820	373,242	-	-	548,062
<b>Total assets</b>	<u>\$ 2,461,186</u>	<u>\$ 158,536</u>	<u>\$ 8,518,563</u>	<u>\$ 263,076</u>	<u>\$ 11,401,361</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 96,945	\$ 4,286	\$ 1,025,481	\$ -	\$ 1,126,712
Deferred revenue	-	154,250	-	-	154,250
<b>Total liabilities</b>	<u>96,945</u>	<u>158,536</u>	<u>1,025,481</u>	<u>-</u>	<u>1,280,962</u>
<b>Fund Balances</b>					
Restricted:					
Sick Leave Payable	\$ 105,236	\$ -	\$ -	\$ -	\$ 105,236
Future Construction	-	-	7,493,082	-	7,493,082
SFCC Escrow- Current	-	-	-	263,076	263,076
Committed:					
Site Base CFWD	3,468	-	-	-	3,468
Unassigned:	2,255,537	-	-	-	2,255,537
<b>Total fund balances</b>	<u>2,364,241</u>	<u>-</u>	<u>7,493,082</u>	<u>263,076</u>	<u>10,120,399</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,461,186</u>	<u>\$ 158,536</u>	<u>\$ 8,518,563</u>	<u>\$ 263,076</u>	<u>\$ 11,401,361</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements.



**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS -**  
**BALANCE SHEET TO THE STATEMENT OF NET POSITION**

June 30, 2013

Amounts reported for governmental activities in the statement of net position are different because:

Total Fund Balance-Governmental Funds	\$10,120,399
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental:

Cost of capital	\$	35,640,996	
Construction in progress		9,299,679	
Accumulated depreciation		(14,673,598)	
Bond Issuance Cost		<u>1,052,557</u>	31,319,634

Long-term liabilities including bonds payable are not due and payable in the current period and therefore are not reported as liabilities in the funds:

Bonds payable		(20,489,000)	
Capital lease payable		(1,332,661)	
Interest payable		(692,662)	
Sick leave		<u>(225,096)</u>	<u>(22,739,419)</u>

Total Net Position-Governmental Funds	<u><u>\$18,700,614</u></u>
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See Independent Auditor's Report and Accompanying Notes to the Financial Statements.

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the year ended June 30, 2013

Revenues	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
From local sources					
Property taxes	\$ 1,340,799	\$ -	\$ -	\$ 194,847	\$ 1,535,646
Motor vehicle taxes	366,919	-	-	-	366,919
Utilities taxes	669,181	-	-	-	669,181
Unmined minerals taxes	13,451	-	-	-	13,451
Other taxes	216,670	-	-	-	216,670
Earnings on investments	20,616	54	-	-	20,670
Other local revenues	83,604	85,870	-	-	169,474
State sources					
SEEK	9,565,309	-	-	667,035	10,232,344
On Behalf Payments	2,963,807	-	-	924,760	3,888,567
Other	99,540	535,341	-	-	634,881
Federal - indirect	28,469	2,025,169	-	-	2,053,638
Other revenues	4,784	-	-	-	4,784
<b>Total revenues</b>	<b>15,373,149</b>	<b>2,646,434</b>	<b>-</b>	<b>1,786,642</b>	<b>19,806,225</b>
<b>Expenditures</b>					
Instruction	8,447,864	1,919,206	-	-	10,367,070
Support services					
Student	816,078	79,481	-	-	895,559
Instruction staff	584,537	333,973	-	-	918,510
District administration	579,409	457	-	-	579,866
School administration	1,057,286	-	-	-	1,057,286
Business	495,136	-	-	-	495,136
Plant operation and maintenance	2,279,788	18,660	-	-	2,298,448
Student transportation	1,511,784	25,316	-	-	1,537,100
Facilities acquisition and construction	-	-	8,509,648	-	8,509,648
Community service activities	43,295	314,839	-	-	358,134
Debt service	-	-	-	1,817,255	1,817,255
<b>Total expenditures</b>	<b>15,815,177</b>	<b>2,691,932</b>	<b>8,509,648</b>	<b>1,817,255</b>	<b>28,834,012</b>
<b>Excess (deficit) of revenues over expenditures</b>	<b>(442,028)</b>	<b>(45,498)</b>	<b>(8,509,648)</b>	<b>(30,613)</b>	<b>(9,027,787)</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of bonds	-	-	811,129	-	811,129
Operating transfers in	76,710	45,498	3,345,884	892,495	4,360,587
Operating transfers out	(2,966,158)	-	-	(1,443,626)	(4,409,784)
<b>Total other financing sources (uses)</b>	<b>(2,889,448)</b>	<b>45,498</b>	<b>4,157,013</b>	<b>(551,131)</b>	<b>761,932</b>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<b>(3,331,476)</b>	<b>-</b>	<b>(4,352,635)</b>	<b>(581,744)</b>	<b>(8,265,855)</b>
<b>Net change in fund balances</b>	<b>(3,331,476)</b>	<b>-</b>	<b>(4,352,635)</b>	<b>(581,744)</b>	<b>(8,265,855)</b>
<b>Fund balance, July 1, 2012</b>	<b>5,695,717</b>	<b>-</b>	<b>11,845,717</b>	<b>844,820</b>	<b>18,386,254</b>
<b>Fund balance, June 30, 2013</b>	<b>\$ 2,364,241</b>	<b>\$ -</b>	<b>\$ 7,493,082</b>	<b>\$ 263,076</b>	<b>\$ 10,120,399</b>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements.

**MORGAN COUNTY PUBLIC SCHOOLS DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2013

Total net change in fund balances- governmental funds	\$ (8,265,855)
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Amounts reported for governmental activities in the statement of net position are different because:

Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.	7,434,154
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In the statement of activities, only the gain on the sale of asset is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differ from the change in fund balances by the basis of the asset sold.	(31,349)
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Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets however issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. This is the amount by which bond proceeds exceed principal payments.	420,290
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In the statement of activities, certain operating expenses such as compensated absences (sick leave), are measured by the amount earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year special termination benefits paid exceed the amounts earned.	32,118
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Interest on long-term debt in the statement of activities differs from the amount reported in governmental funds because interest is recorded as an expenditure in the fund when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of accrued interest on bonds.	<u>(42,169)</u>
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Change in Net Position - Governmental Funds	<u>\$ (452,811)</u>
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See Independent Auditor's Report and Accompanying Notes to the Financial Statements.

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**

As of June 30, 2013

<b>ASSETS</b>	<b>Food Service Fund</b>	<b>Other Enterprise Funds</b>	<b>Total</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 162,950	\$ 23	\$ 162,973
Investments	50,000	-	50,000
Other receivables	26,806	-	26,806
Inventory	20,138	-	20,138
<b>Total current assets</b>	<u>259,894</u>	<u>23</u>	<u>259,917</u>
<b>Noncurrent Assets</b>			
Furniture and equipment	805,677	-	805,677
Less: Accumulated depreciation	(574,145)	-	(574,145)
<b>Total noncurrent assets</b>	<u>231,532</u>	<u>-</u>	<u>231,532</u>
<b>Total assets</b>	<u>\$ 491,426</u>	<u>\$ 23</u>	<u>\$ 491,449</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 216	\$ -	\$ 216
Deferred Revenue	4,235	-	4,235
<b>Total current liabilities</b>	<u>4,451</u>	<u>-</u>	<u>4,451</u>
<b>Total liabilities</b>	<u>4,451</u>	<u>-</u>	<u>4,451</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	231,532	-	231,532
Restricted for:			
New Assets	232,227	23	232,250
Sick Leave Payable	3,077	-	3,077
Inventory	20,139	-	20,139
<b>Total net position</b>	<u>486,975</u>	<u>23</u>	<u>486,998</u>
<b>Total liabilities and net position</b>	<u>\$ 491,426</u>	<u>\$ 23</u>	<u>\$ 491,449</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements.

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**

For the year ended June 30, 2013

	Food Service Fund	Other Enterprise Funds	Total
<b>Operating Revenues</b>			
Service sales	\$ 241,237	\$ 195	\$ 241,432
Other operating revenue	4,386	-	4,386
<b>Total operating revenues</b>	<u>245,623</u>	<u>195</u>	<u>245,818</u>
<b>Operating Expenses</b>			
Salaries and wages	660,638	51	660,689
Professional and contract services	59,796	111	59,907
Supplies and materials	765,335	105	765,440
Depreciation	40,299	-	40,299
Other operating expenses	1,015	-	1,015
<b>Total operating expenses</b>	<u>1,527,083</u>	<u>267</u>	<u>1,527,350</u>
<b>Operating income (loss)</b>	<u>(1,281,460)</u>	<u>(72)</u>	<u>(1,281,532)</u>
<b>Non-operating revenues (expenses)</b>			
Federal grants	1,034,950	-	1,034,950
State grants	100,917	-	100,917
Interest income	673	-	673
Gain/ (Loss) on sale of asset	(510)	-	(510)
<b>Total non-operating revenues (expenses)</b>	<u>1,136,030</u>	<u>-</u>	<u>1,136,030</u>
<b>Other Financing Sources (Uses)</b>			
Operating transfers in	49,197	-	49,197
<b>Total other financing sources (uses)</b>	<u>49,197</u>	<u>-</u>	<u>49,197</u>
<b>Net income (loss)</b>	(96,233)	(72)	(96,305)
<b>Total net position, July 1, 2012</b>	<u>583,208</u>	<u>95</u>	<u>583,303</u>
<b>Total net position, June 30, 2013</b>	<u>\$ 486,975</u>	<u>\$ 23</u>	<u>\$ 486,998</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements.

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**

For the year ended June 30, 2013

	Food Service Fund	Other Enterprise Funds	Total
<b>Cash Flows from Operating Activities</b>			
Cash received from service sales	\$ 228,431	\$ 195	\$ 228,626
Cash received from other activities	4,386	-	4,386
Cash payments to employees for services	(660,638)	(51)	(660,689)
Cash payments to suppliers for goods and services	(812,370)	(216)	(812,586)
<b>Net cash from operating activities</b>	<u>(1,241,206)</u>	<u>(72)</u>	<u>(1,241,278)</u>
<b>Cash Flows from Capital Financing Activities</b>			
Acquisition of capital assets	(23,832)	-	(23,832)
<b>Net cash from capital financing activities</b>	<u>(23,832)</u>	<u>-</u>	<u>(23,832)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Non-operating grants received	1,135,867	-	1,135,867
Transfers in/(out)	49,197	-	49,197
<b>Net cash from noncapital financing activities</b>	<u>1,185,064</u>	<u>-</u>	<u>1,185,064</u>
<b>Cash Flows from Investing Activities</b>			
Interest on investments	673	-	673
<b>Net cash flows from investing activities</b>	<u>673</u>	<u>-</u>	<u>673</u>
<b>Net increase in cash and cash equivalents</b>	(79,301)	(72)	(79,373)
<b>Cash and cash equivalents - beginning</b>	242,251	95	242,346
<b>Cash and cash equivalents - ending</b>	<u>\$ 162,950</u>	<u>\$ 23</u>	<u>\$ 162,973</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ (1,281,460)	\$ (72)	\$ (1,281,532)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Depreciation	40,299	-	40,299
Changes in assets and liabilities:			
Receivables	(12,395)	-	(12,395)
Inventory	18,257	-	18,257
Deferred Revenue	(411)	-	(411)
Accounts payable	(5,496)	-	(5,496)
<b>Net Cash Provided by Operating Activities</b>	<u>\$ (1,241,206)</u>	<u>\$ (72)</u>	<u>\$ (1,241,278)</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements.

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS**

June 30, 2013

<b>ASSETS</b>	<u>Trust/Agency Fund</u>
<b>Current Assets</b>	
Due from other funds	<u>\$        162,335</u>
<b>Total assets</b>	<u><u>\$        162,335</u></u>
 <b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Due to school groups	<u>\$        162,335</u>
<b>Total net position and liabilities</b>	<u><u>\$        162,335</u></u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements.

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE- FIDUCIARY FUNDS**

For the year ended June 30, 2013

	<u>Trust/Agency Fund</u>
<b>Additions</b>	
Revenues from student activities	\$ 640,004
<b>Deduction</b>	
Non-instructional expenses	<u>(637,279)</u>
<b>Change in revenues over expenses</b>	2,725
<b>Due to school groups - beginning</b>	<u>159,610</u>
<b>Due to school groups - ending</b>	<u><u>\$ 162,335</u></u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements.



**MORGAN COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

For the year ended June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Morgan County School District (District), a five-member group, is the basic level of government, which has financial accountability and control over all activities related to the public school education within the jurisdiction of the Morgan County School District. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and have primary financial accountability for fiscal matters. The District is not included in any other governmental "reporting entity" as defined by GASB pronouncements. In accordance with GASB Standard 14, financial transactions of the following component unit are incorporated in the accompanying financial statements.

Morgan County School District Finance Corporation – The Morgan County School District resolved to authorize the establishment of the Morgan County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Morgan County School District also comprise the Corporation's Board of Directors.

**Basis of Presentation**

**District-wide Financial Statements**

The statement of Net Position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The District-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segments or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements**

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Fund Financial Statements (Continued)

funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures or expenses as appropriate. The various funds are summarized by type in the financial statements. The District uses the following funds:

Governmental Fund Types

General Fund - The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of grants from local, state and federal revenue sources that are legally restricted to expenditures for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. Federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

Capital Projects Funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities and equipment.

Capital Outlay Fund - The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

Building Fund - The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, as applicable. Funds may be used for projects identified in the District's facility plan.

Construction Fund- The Construction Fund is used to account for all resources including proceeds from bond sales and other revenues to be used for authorized construction expenditures.

Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term principal and interest related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Proprietary Fund Type**

Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (revenues) and decreases (expenditures) in retained earnings. Fixed assets of the proprietary fund are recorded at cost less accumulated depreciation. Depreciation on fixed assets is recorded using the straight-line method over the assets estimated useful lives. Under this basis of accounting and measurement focus, the District applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB opinions and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The District's Proprietary funds are comprised of the following:

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA).

The Community Education Fund accounts for services rendered to the public. The fund also accounts for the services printing and copying.

**Fiduciary Fund Type**

Fiduciary fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting.

The School Activity Funds are fiduciary funds used to account for student activity organizations in accordance with the Uniform Program of Accounting for School Activity Funds. Financial statements of groups and organizations associated with the school system but not originated within the District (e.g., Band Boosters, Parent-Teacher Associations, etc.) are not included within school activity funds.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds that are presented in the fund financial statements use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Exchange and Non-exchange transactions – There are two types of transactions: exchange and non-exchange. The method of determining revenue recognition (i.e., accrual v. modified accrual) depends upon the type of exchange as well as source of revenue. Exchange transactions occur when each party receives essentially equal value. Non-exchange transactions occur when one party receives value without directly giving equal value in return.

Modified Accrual - Revenue from non-exchange transactions (e.g., grants, entitlements and donations) must be available to be recognized. These sources of revenue are recognized in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenues from exchange transactions are recorded when susceptible to accrual, i.e., both

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting (Continued)**

measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the District, "available" means within sixty days of June 30. Property tax revenue is recognized in the fiscal year for which the taxes are levied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Under the modified basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Accrual - Under the accrual basis of accounting, revenues are recorded when an exchange takes place. Expenses are recognized at the time they are incurred.

**Encumbrance Accounting**

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Kentucky Law, appropriations lapse at fiscal year end. Encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

**Cash and Cash Equivalents**

For the purposes of the statement of cash flows, the proprietary fund type considers highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

**Inventories**

The Proprietary Fund records inventory at cost, determined on a first-in, first-out basis, using the accrual basis of accounting.

**Budget**

The District is required by state law to adopt a budget annually for the General Fund and Special Fund. Each budget is presented on the modified actual basis of accounting which is consistent with the fund financial statement presentation with the exception of employee benefits paid by the state on behalf of the district. Such benefits are reported as expenditure in the General Fund financial statements based on labor distribution, but are not included in the annual budget.

**Fund Balances**

The School Board has implemented GASB Statement 54 employing new terminology and classifications for fund balance items.

Non-spendable Fund Balance includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable. At June 30, 2013, the District did not have a non-spendable fund balance.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balances (Continued)**

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the District had \$105,236 as restricted in General Fund for sick leave, \$7,493,082 as restricted capital projects in the Construction Fund, and \$263,076 restricted in the Building Fund.

Committed fund balances are those amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had committed \$3,468 for Site Based CWFD in the General Fund as of June 30, 2013.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrances of funds. Assigned fund balance also include (a) all remaining amounts (except for negative amounts balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. The district did not have any assigned fund balances

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed, and restricted when an expenditures is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2. SAFEGUARDING CASH AND CASH EQUIVALENTS**

The District's cash and cash equivalents consist of amounts deposited in interest bearing accounts. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

**NOTE 2. SAFEGUARDING CASH AND CASH EQUIVALENTS (CONTINUED)**

At June 30, 2013, the carrying amount of the District's combined deposits (cash and cash equivalents) excluding school activity funds was \$9,658,107 and the combined bank balances totaled \$9,728,500. The bank balances were covered by the combination of FDIC insurance and collateral held by the District's agent in the District's name at June 30, 2013.

**Custodial Credit Risk – Deposits**

Custodial Credit Risk is the risk that in the event of a depository institution failure, the Districts' deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). All deposits meet current guidelines.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 Deposits that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities and repurchase agreements. The investment pool and repurchase agreements are considered nonparticipating contracts. The District has a repurchase agreement whereby daily bank deposits sweep to an interest bearing overnight account. Such agreements can be categorized according to three levels of risk. These three levels of risk are:

Category 1 Investments that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Investments that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Uninsured and unregistered investments held by the counter party, its trust or its agent, but not in the District's name.

The District's investment in repurchase agreements is classified by risk level as Category 2.

**NOTE 3. PROPERTY TAXES**

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited in the General Fund and then transferred to the appropriate fund.

**NOTE 3. PROPERTY TAXES (CONTINUED)**

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.491 per \$100 valuation of real property, \$.491 per \$100 valuation for business personal property and \$.533 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communication services, cablevision services, electric power, water, and natural, artificial and mixed gas.

**NOTE 4. RETIREMENT PLANS**

Kentucky Teachers' Retirement System

The Morgan County School System contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of the KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions of 14.105%.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy - In order to fund the post-employment healthcare benefit three and one half percent (3.5%) of gross annual payroll of members before July 1, 2008 is contributed. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**NOTE 4. RETIREMENT PLANS (CONTINUED)**

Kentucky Teachers' Retirement System (Continued)

The Morgan County Schools' total payroll for the year was \$11,097,294. The payroll for employees covered under KTRS was \$8,098,192. For the year ended June 30, 2013, the Commonwealth contributed \$906,118 to KTRS for the benefit of participating employees. The School districts contributions to KTRS for the year ending June 30, 2013 were \$237,818 which represents those employees covered by federal programs.

County Employees Retirement System

Plan Description - The County Employees Retirement System (CERS) administered by the Kentucky Retirement System (KRS) is a cost-sharing multiple-employer defined benefit public employee retirement system. The plan provides benefit pension plan coverage for substantially all regular non-certified, full-time employees of each county and Public Schools, and any additional eligible local agencies electing to participate in the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1980, 6% thereafter through June 30, 1986, and 4% thereafter.

CERS through KRS provides for retirement, disability, death, and survivor and health benefits of its members. The KRS annual financial report and other required disclosure information is available by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by calling (800) 928-4646.

Funding Status and Progress - The Kentucky Retirement System administers CERS based upon employer matching contributions from each county, Public Schools and eligible local agencies electing to participate in the System. The Board of Trustees of Kentucky Retirement Systems determines contribution rates each biennium. The following are CERS non-hazardous contribution rates for the year ended June 30, 2013 member is 5% of their salaries. Participation after September 1, 2008 is at the rate of 6%. The District is required to contribute 19.55%.

The District's total gross payroll for the year was \$11,097,294. The contribution requirement for CERS for the year ended June 30, 2013, was \$624,347, which consisted of \$559,757 from the District and \$147,551 from employees.

The contribution requirement for CERS for the year ended June 30, 2013, was \$707,308, which consisted of \$547,223 from the District and \$146,252 from employees.

Additional information and historical trend information can be obtained from the Teachers Retirement System of Kentucky and the County Employee Retirement System of Kentucky.

**NOTE 5. LIABILITY FOR COMPENSATED ABSENCES**

Employees are awarded a maximum of 10 days for 185-day contracts, 11 days for 11-month contracts, and 12 days for 12-month contracts of sick leave annually, based upon employment contract terms and District policy. Sick leave is accrued without limitation. Upon retirement from the school system, a certified and classified employee receives from the District an amount equal to 30% of the value of accumulated sick leave at the current daily rate of pay. At June 30, 2013, the estimate of the current portion for those employees with 27 or more years covered service is \$105,236, which is recorded as a current liability in the



**NOTE 5. LIABILITY FOR COMPENSATED ABSENCES (CONTINUED)**

district-wide financial statements. The long-term portion is \$119,860, which is recorded as a non-current liability in the long-term district-wide financial statement.

**NOTE 6. CAPITAL ASSETS**

Capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of Net Position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of Net Position and in the respective funds.

All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

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MORGAN COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)

**NOTE 6. CAPITAL ASSETS (CONTINUED)**

<b>Governmental Assets</b>	<b>June 30, 2012</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2013</b>
<b>Cost</b>				
Land	\$ 1,089,020	\$ -	\$ -	\$ 1,089,020
Land Improvements	125,313	599,807	-	725,120
Buildings & Improvements	24,997,881	862,231	(25,464)	25,834,648
Technology Equipment	1,600,457	16,033	(393,308)	1,223,182
Other	3,586,687	26,089	(181,747)	3,431,029
Vehicles	3,274,429	482,754	(419,186)	3,337,997
Construction in Progress	2,352,519	6,978,561	(31,401)	9,299,679
<b>Totals at historical cost</b>	<b>37,026,306</b>	<b>8,934,074</b>	<b>(1,051,106)</b>	<b>44,940,675</b>
<b>Less: Accumulated Depreciation</b>				
Land Improvements	12,514	27,780	-	40,294
Buildings & Improvements	8,264,699	560,659	(21,358)	8,804,000
Technology Equipment	1,331,413	97,838	(376,967)	1,052,284
Other	2,867,860	135,906	(170,845)	2,832,921
Vehicles	2,118,871	244,414	(419,186)	1,944,099
<b>Total accumulated depreciation</b>	<b>14,595,357</b>	<b>1,066,597</b>	<b>(988,356)</b>	<b>14,673,598</b>
<b>Net Fixed Assets - Government</b>	<b>\$ 22,430,949</b>	<b>\$ 7,867,479</b>	<b>\$ (62,750)</b>	<b>\$ 30,267,077</b>
<b>Business Assets</b>				
Vehicles	\$ -	\$ 18,800	\$ -	\$ 18,800
Technology Equipment	6,063	-	-	6,063
General Equipment	785,082	5,032	(9,300)	780,814
<b>Totals at historical cost</b>	<b>791,145</b>	<b>23,832</b>	<b>(9,300)</b>	<b>805,677</b>
<b>Less: Accumulated Depreciation</b>				
Vehicles	-	3,447	-	3,447
Technology Equipment	3,345	1,212	-	4,557
General Equipment	539,291	35,640	(8,790)	566,141
<b>Total accumulated depreciation</b>	<b>542,636</b>	<b>40,299</b>	<b>(8,790)</b>	<b>574,145</b>
<b>Net Fixed Assets - Business Type</b>	<b>\$ 248,509</b>	<b>\$ (16,467)</b>	<b>\$ (510)</b>	<b>\$ 231,532</b>

<b>Description</b>	<b>Estimated Life in Years</b>
Buildings and Improvements	25-50
Land Improvements	20
Technology Equipment	5
Audi-Visual Equipment	15
Vehicles	5-10
Food Service Equipment	10-12
Furniture and Fixtures	7
Rolling Stock	15

MORGAN COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)

**NOTE 7. BOND DEBT**

The District is required to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Morgan County Public Board of Education Finance Corporation to construct school facilities. Current requirements for principal and interest expenditures are accounted for in the Building Fund in accordance with state law. The District is liable for all issues; however, School Facilities Construction Commission participates by contributing those portions of debt that are appropriated in the State's biennial budget.

Morgan County School District is contingently liable for the debt listed below under School Facilities Construction Commission (SFCC). The SFCC principal has not been included as bonded indebtedness in the basic financial statements. A Schedule of Total Bonded Debt Maturities follows on page 33.

The issue date, original amounts of the issue and interest rates are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2012</u>		<u>2013</u>	
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2002A Series	3,200,000	2015	3.50-4.35%	\$ 1,395,000	\$ -	\$ 1,395,000	\$ -
2004 Series	322,000	2024	2.75-5.00%	220,000	-	205,000	15,000
2005 Series	8,765,000	2026	3.75-4.00%	6,880,000	-	5,690,000	1,190,000
2012 Series	11,490,000	2032	2.00-3.50%	11,490,000		165,000	11,325,000
2013R Series	6,050,000	2025	1.00%	-	6,050,000	85,000	5,965,000
2013RA Series	1,169,000	2023	.40-.50%	-	1,169,000	15,000	1,154,000
2013 Series	840,000	2033	3.00%	-	840,000	-	840,000
<b>TOTAL</b>				<b>\$ 19,985,000</b>	<b>\$ 8,059,000</b>	<b>\$ 7,555,000</b>	<b>\$ 20,489,000</b>

Assuming the issues are not called prior to scheduled maturity, the minimum obligations at June 30, 2013 for debt service are as shown in the supplemental Schedule of Total Bonded Debt Maturities, which includes "participation agreements" with the Kentucky School Facilities Construction Commission. The Kentucky General Assembly created the KSFCC for the purpose of assisting local schools in meeting school construction needs. The participation agreement amounts to be assumed by KSFCC are recorded as on behalf in the District's basic financial statements.

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MORGAN COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)

**NOTE 7. BOND DEBT (CONTINUED)**

**MORGAN COUNTY SCHOOLS  
SCHEDULE OF DEBT PAYMENTS  
AS OF JUNE 30, 2013**

YEAR	MORGAN COUNTY SCHOOL DISTRICT		SCHOOL FACILITIES CONSTRUCTION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2014	\$ 416,109	\$ 260,119	\$ 753,891	\$ 417,330	\$ 1,847,449
2015	415,125	257,427	739,875	209,763	1,622,190
2016	425,125	254,979	673,875	191,164	1,545,143
2017	419,671	246,414	685,329	177,699	1,529,113
2018	429,619	238,297	695,381	169,380	1,532,677
2019	434,173	230,010	700,827	160,570	1,525,580
2020	448,055	221,544	716,945	150,906	1,537,450
2021	455,413	210,673	724,587	138,959	1,529,632
2022	470,901	197,440	739,099	124,946	1,532,386
2023	484,870	183,626	750,130	109,315	1,527,941
2024	497,808	169,439	767,192	92,552	1,526,991
2025	510,271	154,773	769,729	75,076	1,509,849
2026	531,047	139,735	733,953	57,296	1,462,031
2027	568,785	124,423	206,215	45,394	944,817
2028	588,747	106,648	211,253	39,006	945,654
2029	608,427	87,808	221,573	32,336	950,144
2030	627,637	67,274	227,363	25,045	947,319
2031	646,651	46,091	233,349	17,559	943,650
2032	670,233	23,458	239,767	9,642	943,100
2033	-	-	50,000	1,500	51,500
TOTAL	\$ 9,648,667	\$ 3,220,178	\$ 10,840,333	\$ 2,245,438	\$ 25,954,616

**NOTE 8. CAPITAL LEASE PAYABLE**

The amount shown in the accompanying financial statements as lease obligations represent the Board's future obligations to make lease payments relating to equipment lease revenue bonds issued by the Kentucky Inter-local School Transportation Association ("KISTA"). These amounts are not reflected on the fund financial statements. The bonds issued to provide funds for the purchase of school buses and equipment, and the lease of these buses and equipment by the Board of KISTA is the source of the Board's obligation. Upon full payment of the lease, title will be conveyed to the Board.

MORGAN COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)

**NOTE 8. CAPITAL LEASE PAYABLE (CONTINUED)**

<u>KISTA Issue</u>	<b>2012</b>			<b>2013</b>
	<b>Outstanding</b>			<b>Outstanding</b>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
2003 KISTA	\$ 22,191	\$ -	\$ 22,191	\$ -
2006A KISTA	117,990	-	30,706	87,284
2006B KISTA	164,609	-	52,692	111,917
2008 KISTA	92,254	-	14,996	77,258
2009 KISTA	54,433	-	7,482	46,951
2011 KISTA	299,242	-	36,975	262,267
2012 KISTA	347,246	-	37,767	309,479
2012B KISTA	-	364,767	-	364,767
2013 KISTA	-	82,353	9,615	72,738
<b>TOTAL</b>	<b>\$ 1,097,965</b>	<b>\$ 447,120</b>	<b>\$ 212,424</b>	<b>1,332,661</b>

Shown below is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2013. Such leases are paid by the General Fund.

**MORGAN COUNTY SCHOOLS  
SCHEDULE OF CAPITAL LEASE PAYMENTS  
AS OF JUNE 30, 2013**

<u>YEAR</u>	<b>MORGAN COUNTY SCHOOL DISTRICT</b>		<u>TOTALS</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	
2014	\$ 203,625	\$ 34,924	\$ 238,549
2015	195,119	29,653	224,772
2016	187,714	24,409	212,123
2017	160,874	19,143	180,017
2018	135,675	14,820	150,495
2019	123,952	11,364	135,316
2020	112,592	8,209	120,801
2021	108,211	5,311	113,522
2022	71,903	2,336	74,239
2023	32,996	660	33,656
<b>TOTAL</b>	<b>\$ 1,332,661</b>	<b>\$ 150,829</b>	<b>\$ 1,483,490</b>

**NOTE 9. OPERATING FUND TRANSFERS**

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	KETS Offer of Assistance	\$ 44,575
Operating	General	Special Revenue	Insurance Proceeds	923
Operating	General	Construction	Insurance Proceeds	2,583,717
Operating	General	Construction	Fund Projects	70,602
Operating	General	Debt Service	KISTA Payments	217,144
Operating	General	Food Service	Insurance Proceeds	49,197
Operating	Capital Outlay	General	Capital Fund Request	76,710
Operating	Capital Outlay	Construction	Fund Projects	146,724
Operating	Capital Outlay	Construction	UnEscrow	18,216
Operating	Building	Construction	UnEscrow	526,625
Operating	Building	Debt Service	Bond Payments	675,351
Total Transfers				<u>\$ 4,409,784</u>

**NOTE 10. DEFICIT OPERATING BALANCES**

There are no funds of the District that currently have a deficit fund balance/Net Position. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/Net Position:

General Fund	(\$3,331,476)
Capital Outlay Fund	(\$55,297)
Building Fund	(\$526,447)
Construction Fund	(\$4,352,635)
Food Service	(\$96,233)
Community Education	(\$72)

**NOTE 11. RISK MANAGEMENT**

**Liability Insurance Coverage**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which include worker's compensation insurance.

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association.

**NOTE 11. RISK MANAGEMENT (CONTINUED)**

Worker's Compensation

The District pays an annual premium to each fund for coverage. Contributions to the Worker's Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

Unemployment Insurance

The District obtains unemployment insurance coverage through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, the risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance coverage for all other risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

COBRA

Under COBRA, (Consolidated Omnibus Budget Reconciliation Act) employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for potential loss.

**NOTE 12. COMMITMENTS AND CONTINGENCIES**

Litigation

The District is not currently named as defendants in any lawsuits to the knowledge of the School District and the District's attorney.

Grant Programs

The District receives funding from federal, state and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantors' review indicated that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of future refunds and unreimbursed disbursements, if any, are not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

**NOTE 13. BUDGETARY DISCLOSURE REQUIREMENTS**

Budgetary comparisons for the General Fund and Special Revenue Fund are disclosed as required supplementary information. "On behalf" contributions made by the Commonwealth of Kentucky were recorded in the District's records as revenues and expenditures. The purpose of the policy change was to conform to requirements of the GASB 34 reporting model. The District's budget appropriations did not reflect this change in policy.

MORGAN COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)

**NOTE 14. ON-BEHALF PAYMENTS**

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2013 was \$3,977,198. These payments were recorded as follows:

General Fund	\$	2,963,716
Food Service		88,722
Debt Service		924,760
Total	\$	<u>3,977,198</u>



**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**

For the year ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)	Variance % Favorable (Unfavorable)
<b>REVENUES</b>					
From local sources					
Taxes					
Property taxes	\$ 1,135,000	\$ 1,135,000	\$ 1,340,799	\$ 205,799	18.13%
Motor vehicle taxes	325,000	325,000	366,919	41,919	12.90%
Utility taxes	575,000	575,000	669,181	94,181	16.38%
Unmined minerals taxes	-	-	13,451	13,451	100.00%
Other taxes	150,000	150,000	216,670	66,670	44.45%
Earnings on investments	15,000	15,000	20,616	5,616	37.44%
Other local revenues	131,203	131,203	83,604	(47,599)	-36.28%
State Sources					
SEEK	9,569,811	9,565,309	9,565,309	-	0.00%
Other	77,450	77,450	3,063,347	2,985,897	3855.26%
Federal-Indirect	38,000	38,000	28,469	(9,531)	-25.08%
Other		-	4,784	4,784	100.00%
Inter-fund transfers	47,736	76,710	76,710	-	0.00%
Beginning Balance	5,569,974	5,564,595	5,695,717	131,122	2.36%
Less On-Behalf Payments	-	-	(2,963,807)	(2,963,807)	
<b>TOTAL REVENUES</b>	<b>17,634,174</b>	<b>17,653,267</b>	<b>18,181,769</b>	<b>528,502</b>	<b>2.99%</b>
<b>EXPENDITURES</b>					
Instructional	6,505,820	6,776,798	8,447,864	(1,671,066)	-24.66%
Student services					
Student	773,134	752,532	816,078	(63,546)	-8.44%
Instructional staff	445,704	452,990	584,537	(131,547)	-29.04%
District administrative	527,831	592,763	579,409	13,354	2.25%
School administrative	823,238	841,875	1,057,286	(215,411)	-25.59%
Business	356,755	359,438	495,136	(135,698)	-37.75%
Plant operation and maintenance	2,205,791	2,360,935	2,279,788	81,147	3.44%
Student transportation	1,433,384	1,481,929	1,511,784	(29,855)	-2.01%
Community Services		-	43,295	(43,295)	-100.00%
Inter-fund transfers	244,788	2,966,158	2,966,158	-	0.00%
Contingency	4,317,729	1,067,849	-	1,067,849	100.00%
Less On-Behalf Payments			(2,963,807)	2,963,807	
<b>TOTAL EXPENDITURES</b>	<b>17,634,174</b>	<b>17,653,267</b>	<b>15,817,528</b>	<b>1,835,739</b>	<b>10.40%</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,364,241</b>	<b>\$ 2,364,241</b>	<b>13.39%</b>

NOTE: BUDGET INFORMATION IS DERIVED FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT, WHICH MAY VARY FROM THE BASIC FINANCIAL STATEMENTS. THE VARIATIONS ARE PRIMARILY DUE TO PRESENTATION OF OTHER FINANCING SOURCES (USES) OF FUNDS AND TRANSFERS.

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**SPECIAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**

For the year ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)	Variance % Favorable (Unfavorable)
<b>REVENUES</b>					
From local sources					
Earnings on investments	\$ -	\$ 24	\$ 54	\$ 30	125.00%
Other local revenues	75,369	79,272	85,870	6,598	8.32%
Intergovernmental - state	526,219	554,648	535,341	(19,307)	-3.48%
Intergovernmental - Federal	1,879,408	1,900,065	2,025,169	125,104	6.58%
Inter-fund transfers	35,000	30,740	45,498	14,758	48.01%
<b>TOTAL REVENUES</b>	<u>2,515,996</u>	<u>2,564,749</u>	<u>2,691,932</u>	<u>127,183</u>	<u>4.96%</u>
<b>EXPENDITURES</b>					
Instructional	1,827,132	1,815,537	1,919,206	(103,669)	-5.71%
Student services:					
Student	84,227	104,227	79,481	24,746	23.74%
Instructional staff	265,246	291,935	333,973	(42,038)	-14.40%
District		-	457	(457)	-100.00%
School administrative		-	-	-	-100.00%
Plant operation and maintenance	10,000	17,100	18,660	(1,560)	-9.12%
Student transportation	25,007	27,263	25,316	1,947	7.14%
Community services	304,384	308,687	314,839	(6,152)	-1.99%
<b>TOTAL EXPENDITURES</b>	<u>2,515,996</u>	<u>2,564,749</u>	<u>2,691,932</u>	<u>(127,183)</u>	<u>-4.96%</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>

NOTE: BUDGET INFORMATION IS DERIVED FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT, WHICH MAY VARY FROM THE BASIC FINANCIAL STATEMENTS. THE VARIATIONS ARE PRIMARILY DUE TO PRESENTATION OF OTHER FINANCING SOURCES (USES) OF FUNDS AND TRANSFERS.

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS**

As of June 30, 2013

	<u>Building Fund</u>	<u>Total Non-Major Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 263,076	\$ 263,076
<b>Total assets</b>	<u>\$ 263,076</u>	<u>\$ 263,076</u>
 <b>LIABILITIES AND FUND BALANCES</b>		
<b>Fund Balances</b>		
Restricted:		
Restricted for SFCC Escrow	\$ 263,076	\$ 263,076
<b>Total fund balances</b>	<u>\$ 263,076</u>	<u>\$ 263,076</u>

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2013

	Building Fund	Capital Outlay Fund	Debt Service Fund	Total Non-major Govt. Funds
<b>Revenues</b>				
From local sources				
Property taxes	\$ 194,847	\$ -	\$ -	\$ 194,847
State sources				
SEEK	480,682	186,353	-	667,035
On Behalf	-	-	924,760	924,760
<b>Total revenues</b>	<u>675,529</u>	<u>186,353</u>	<u>924,760</u>	<u>1,786,642</u>
<b>Expenditures</b>				
Debt service	-	-	1,817,255	1,817,255
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>1,817,255</u>	<u>1,817,255</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>675,529</u>	<u>186,353</u>	<u>(892,495)</u>	<u>(30,613)</u>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	-	-	892,495	892,495
Operating transfers out	(1,201,976)	(241,650)	-	(1,443,626)
<b>Total other financing sources (uses)</b>	<u>(1,201,976)</u>	<u>(241,650)</u>	<u>892,495</u>	<u>(551,131)</u>
<b>Net change in fund balances</b>	<u>(526,447)</u>	<u>(55,297)</u>	<u>-</u>	<u>(581,744)</u>
<b>Fund balance, July 1, 2012</b>	<u>789,523</u>	<u>55,297</u>	<u>-</u>	<u>844,820</u>
<b>Fund balance, June 30, 2013</b>	<u>\$ 263,076</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 263,076</u>

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**MORGAN COUNTY HIGH SCHOOL ACTIVITY FUND**  
ALL FUNDS COMBINED  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE**

For the year ended June 30, 2013

Individual Funds	Cash Balance June 30, 2012	Receipts	Disburse- ments	Transfers In(Out)	Ending Cash and Fund Balance June 30, 2013
Adam/Williams	\$ 235	\$ 1,539	\$ (1,508)	\$ -	\$ 266
AP English III	308	1,314	(1,595)	-	27
Arts Club	1,317	-	-	-	1,317
Athletics	1,020	59,999	(58,567)	-	2,452
Anti Bully Project	-	1,283	(1,181)	-	102
Band	4,038	22,532	(23,442)	-	3,128
Baseball	1,703	3,489	(3,993)	1,000	2,199
Bookstore	1,497	-	-	-	1,497
Boys Basketball	1,030	1,500	(3,218)	1,000	312
Boys Golf	80	-	-	1,000	1,080
Cheerleaders	2,920	14,325	(15,785)	-	1,460
Class of 2014	3,026	9,201	(7,371)	-	4,856
Class of 2012	278	-	-	(278)	-
Class of 2013	2,601	32,051	(31,962)	-	2,690
Class of 2016	-	150	-	278	428
Concession/Athletic	12,165	29,396	(15,865)	(12,105)	13,591
Cross Country	1,480	100	(527)	1,000	2,053
F.C.C.L.A	386	1,320	(1,565)	-	141
Fellowship of Christian Athletics	315	-	-	-	315
Future Business Leaders of America	-	178	(185)	15	8
Future Educators Association	15	-	-	(15)	-
Future Farmers of America	3,192	36,035	(33,147)	72	6,152
Football	15	1,500	-	-	1,515
Girls Basketball	871	4,511	(5,569)	1,000	813
Girls Golf	122	1,113	(1,475)	1,000	760
Home Economics	-	965	(844)	20	141
Interact Club	26	4,392	(3,480)	-	938
Juniorettes	1,181	-	-	-	1,181
Lance Teachers	107	338	(274)	-	171
Library	374	-	(148)	-	226
National Honor Society	1,849	590	(49)	-	2,390
Office	728	321	(959)	-	90
Pepsi Teachers	944	3,267	(2,413)	-	1,798
Project Prom	727	1,000	(1,038)	-	689
Quarterback Club	15,290	19,316	(23,347)	75	11,334
School Supply Club	4,101	14,590	(12,121)	-	6,570
Softball	709	1,554	(2,512)	1,000	751
Spanish Club	829	2,725	(3,279)	-	275
Space Science	-	580	(541)	-	39
Student Council	2,364	2,047	(1,349)	-	3,062
Students Against Drunk Drivers	1,503	1,291	(1,321)	-	1,473
Teachers Account	85	20	-	-	105
Technology Student Association	921	1,108	(1,847)	-	182
Tennis	2,318	8,814	(8,782)	2,000	4,350
Track Club	4	583	(1,598)	2,000	989
VO-AG	183	-	(176)	-	7
Volleyball	1,014	2,315	(3,200)	1,000	1,129
Winter Guard	-	575	(523)	30	82
Yearbook	2,111	1,290	(1,195)	-	2,206
Youth Service	2,342	100	(1,528)	(92)	822
<b>Totals</b>	<b>\$ 78,324</b>	<b>\$ 289,317</b>	<b>\$ (279,479)</b>	<b>\$ -</b>	<b>\$ 88,162</b>

**MORGAN COUNTY PUBLIC SCHOOL DISTRICT**  
**ELEMENTARY AND MIDDLE SCHOOLS ACTIVITY FUNDS**  
**ALL FUNDS COMBINED**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE**

For the year ended June 30, 2013

Schools	Cash Balance June 30, 2012	Receipts	Disburse- ments	Cash Balance And Fund Balance June 30, 2013
Elementary				
East Valley	\$ 8,192	\$ 42,791	\$ (49,804)	\$ 1,179
Ezel	6,051	23,775	(24,593)	5,233
Central	8,124	74,055	(74,598)	7,581
West Liberty	11,848	57,124	(56,854)	12,118
Middle				
Morgan County	47,071	152,942	(151,951)	48,062
Total	<u>\$ 81,286</u>	<u>\$ 350,687</u>	<u>\$ (357,800)</u>	<u>\$ 74,173</u>

**MORGAN COUNTY PUBLIC SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2013

<u>Program Title</u>	<u>Munis No.</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	<u>Total By CFDA No.</u>
<b>U. S. DEPARTMENT OF AGRICULTURE</b>				
		<b>Cluster</b>		
<i>Passed Through Kentucky Department of Education:</i>				
<u>Child Nutrition Cluster</u>				
School Breakfast Program	203x	10.553	\$ 260,497	
National School Lunch Program	205x	10.555	679,580	
Summer Food Program	209x	10.559	23,498	\$ 963,575 **
<i>Passed Through Kentucky Department of Agriculture:</i>				
<u>Food Distribution Cluster</u>				
Commodity Supplemental Food Program	201x	10.565	71,370	71,370
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>				<u>1,034,945</u>
<b>U. S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Kentucky Department of Education:</i>				
Community Based Work Transition	3712	84.002	6,390	
Community Based Work Transition	3713	84.002	5,777	12,167
<u>Title I Cluster</u>				
Title I: Part A - Improving Basic Programs	3102	84.010	122,666	
Title I: Part A - Improving Basic Programs	3103	84.010	779,837	
Title I: Part A - School Improvement	3202	84.010	42,796	945,299 **
Title I - Neglected and Delinquent Children	3133	84.013	19,324	
Title I - Neglected and Delinquent Children Transition Funds	3133T	84.013	1,933	21,257
<u>Special Education Cluster</u>				
IDEA B - BASIC	3372	84.027	361,190	
IDEA B - BASIC	3373	84.027	104,106	
IDEA B - Preschool	3431	84.173	1,304	
IDEA B - Preschool	3432	84.173	23,228	
IDEA B - Preschool	3433	84.173	449	490,277 **
Carl Perkins, Title I: Part C - Vocational (Carryforward)	3482A	84.048	614	
Carl Perkins, Title I: Part C - Vocational	3483	84.048	16,525	17,139
21st Century Community Learning Center	5501	84.287	10,416	
21st Century Community Learning Center	5502	84.287	63,272	
21st Century Community Learning Center - Supplemental	5501J	84.287	4,183	77,871
Title VI: Part B, Subpart 2 - Rural & Low Income Schools	3501	84.358	7,687	
Title VI: Part B, Subpart 2 - Rural & Low Income Schools	3502	84.358	41,904	
Title VI: Part B, Subpart 2 - Rural & Low Income Schools	3503	84.358	370	49,961
Title II: Part A - Improving Teacher Quality State Grants	4012	84.367	39,201	
Title II: Part A - Improving Teacher Quality State Grants	4013	84.367	193,341	232,542 **
* ARRA - Title I - School Improvement Grant - LEA Year 1	5600B	84.388	38,843	
* ARRA - Title I - School Improvement Grant - LEA Year 2	5600C	84.388	34,332	73,175
Education Jobs Fund Program	4411	84.410	3,925	3,925
Race To The Top	4521	84.413	7,536	7,536

See Accompanying Notes to Schedule of Expenditures of Federal Awards

**MORGAN COUNTY PUBLIC SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2013

<u>Program Title</u>	<u>Munis No.</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	<u>Total By CFDA No.</u>
<b>U. S. DEPARTMENT OF EDUCATION (CONTINUED)</b>				
<i>Passed through Institute of Regional Analysis Public Policy</i>				
GEAR-UP	3792G	84.334	11,639	
GEAR-UP	3793G	84.334	66,700	78,339
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>				<u>2,009,488</u>
<b>U. S. DEPARTMENT OF HOMELAND SECURITY</b>				
<i>Passed through Federal Emergency Management Agency</i>				
Disaster Grants - Public Assistance	6772	97.036	<u>5,325</u>	5,325
<b>APPALACHIAN REGIONAL COMMISSION</b>				
<i>Passed through Morehead State University</i>				
ARC Flex-E Grant Brushy Fork Institute	4703	23.011	9,996	
Appalachian Higher Education Network (KY AHED)	6881	23.011	<u>108</u>	<u>10,104</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u><u>\$3,059,862</u></u>

\* American Reinvestment & Recovery Act

Tested as Major Program or Cluster \*\*



**MORGAN COUNTY SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ended June 30, 2013

**NOTE A. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal activity of the Morgan County Public Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B. FOOD DISTRIBUTION PROGRAM**

Non-monetary assistance is reported in the Schedule at the fair value of the commodities received. Commodities passed through the U.S. Dept. of Agriculture during the year totaled \$71,370.

**MORGAN COUNTY PUBLIC SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended June 30, 2013

Section 1. Summary of Auditor's Findings

**Financial statements:**

Type of auditor's report issued:	<u>unqualified</u>
Internal control over financial reporting	<u>Yes</u> <u>No</u>
• Material Weaknesses identified?	X
• Significant Deficiencies identified that are not considered to be material weaknesses?	X
• Noncompliance material to financial statements noted?	X

**Federal Awards:**

Internal control over major programs	<u>Yes</u> <u>No</u>
• Material weakness identified?	X
• Significant Deficiencies identified that are not considered to be material weaknesses?	X None Reported

Type of auditor's report issued on compliance for major programs:	<u>unqualified</u>
	<u>Yes</u> <u>No</u>
• Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?	X

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.559	Child Nutrition Cluster
84.010	Title I Cluster
84.027, 84.173	Special Education Cluster
84.367	Title II- Improving Teacher Quality

- Dollar threshold used to distinguish between type A and type B programs     \$300,000
- Auditee qualified as low-risk auditee?     Yes \_\_\_\_\_     No   X

MORGAN COUNTY PUBLIC SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2013

Section 2. Financial Statement Findings

Current Year Findings:

2013-01      Tagging Fixed Assets

*Statement of Condition:*    A new addition was not tagged or properly marked as property of Morgan Co Board of Education.

*Criteria for Condition:*    All assets susceptible to conversion to personal use should be tagged immediately after purchase.

*Cause of the Condition:*    An asset used by a student on a daily basis was not properly tagged as Morgan Co Board of Education property.

*Effect of the Condition:*    Assets could be converted to personal use by the student.

*Recommendation  
for Correction:*                All assets should be properly tagged immediately after purchase before being placed within the district.

**Management Responses:**

All fixed asset purchases will be tagged before being distributed for use.

Prior Year Findings:

2012-01:      Fixed Asset- Corrected

Section 3. Federal Awards Findings and Questionable Costs

Current Year Findings: No matters were reported

Prior Year Findings:    No matters were reported

**MORGAN COUNTY SCHOOL DISTRICT**  
**SUMMARY OF PRIOR YEAR AUDIT FINDINGS**  
Year ended June 30, 2013

Prior Year Findings:

2012-01:      Fixed Asset Recording- Corrected

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Members of the Board  
Morgan County School District  
West Liberty, Kentucky

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organization* the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Morgan County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Morgan County School District's basic financial statements and have issued our report thereon dated November 12, 2013.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered Morgan County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morgan County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Morgan County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies, 2013-01.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS  
(Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Morgan County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

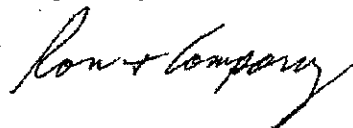
Morgan County Public Schools District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned cost. Morgan County Public School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School District, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,

A handwritten signature in dark ink, appearing to read "Ross and Company", is written over a horizontal line.

Ross and Company, PLLC  
November 12, 2013

**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
**800 Envoy Circle**  
**Louisville, KY 40299-1837**  
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Members of the Board  
Morgan County School District  
West Liberty, Kentucky

**INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Report on Compliance for Each Major Federal Program**

We have audited Morgan County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of Morgan County School District's major federal programs for the year ended June 30, 2013. Morgan County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Morgan County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morgan County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Morgan County School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Morgan County School District complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2013.

INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

**Report Internal Control over Compliance**

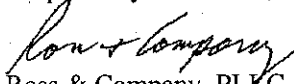
Management of Morgan County School District is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Morgan County School District's internal control over compliance with the types requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstance for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Morgan County School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of the internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully Submitted,

  
Ross & Company, PLLC  
November 12, 2013



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State Committee for School District Audits  
Superintendent and Members of the Public Schools  
Morgan County School District  
West Liberty, Kentucky

**RECOMMENDATIONS AND COMMENTS TO MANAGEMENT**

In planning and performing our audit, we considered Morgan County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Morgan County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness.

**Current Year Findings –**

2013-01      Tagging Fixed Assets

*Statement of Condition:*      A new addition was not tagged or properly marked as property of Morgan Co Board of Education.

*Criteria for Condition:*      All assets susceptible to conversion to personal use should be tagged immediately after purchase.

*Cause of the Condition:*      An asset used by a student on a daily basis was not properly tagged as Morgan Co Board of Education property.

*Effect of the Condition:*      Assets could be converted to personal use by the student.

*Recommendation  
for Correction:*      All assets should be properly tagged immediately after purchase before being placed within the district.

**Management Response:**

All fixed asset purchases will be tagged before being distributed for use.

MORGAN COUNTY PUBLIC SCHOOLS  
RECOMMENDATIONS AND  
COMMENTS TO MANAGEMENT  
JUNE 30, 2013  
(Continued)

2013-02: Deposits over \$100. (Redbook)

*Statement of Condition:* Amounts over \$100 were not deposited timely.

*Criteria for Condition:* All money collected should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, small amounts may be held in a secure location per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

*Cause of the Condition:* Deposits in amounts over \$100 held over a day before being deposited.

*Effect of the Condition:* Money is not deposited in a timely manner.

*Recommendation for*

*Correction:* Deposits over \$100 should be delivered to the bank on the same day as the money was collected.

**Management Response:**

*Morgan Central Elementary:* All deposits that are over \$100 or more will be taken to the bank daily.

*East Valley Elementary:* EVES, from this point on, will make deposits on a daily basis, if the amount is over \$100.

*Morgan County Middle:* Deposits over \$100.00 will be delivered to the bank on the same day that they are created. In the event that the school treasure cannot make the deposit the principal will be responsible for delivering the deposit to the bank.

2013-03: Handling Cash, (Redbook)

*Statement of Condition:* Money/checks were held for a period of time before being submitted to the school treasurer.

*Criteria for Condition:* All money collected by a teacher/sponsor shall be given to the school treasurer on the day of collection per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

*Cause of the Condition:* Teachers/sponsors held checks until the fundraiser was over before submitting to the treasurer.

*Effect of the Condition:* Money is not deposited in a timely manner.

*Recommendation for*

*Correction:* Request all teachers/sponsor that all money should be delivered to school treasurer on date of collection.

**Management Response:**

*Morgan County Middle:* All teachers/staff will be responsible for delivering all monies to the treasurer on the date that it is collected.

MORGAN COUNTY PUBLIC SCHOOLS  
RECOMMENDATIONS AND  
COMMENTS TO MANAGEMENT  
JUNE 30, 2013  
(Continued)

2013-04: Multiple Receipt Forms, (Redbook)

*Statement of Condition:* Multiple receipt forms with student's signature were not used when collecting money.

*Criteria for Condition:* Teachers/sponsors/students shall use Multiple Receipt Forms or pre-numbered receipts when collecting money per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

*Cause of the Condition:* Multiple Receipt Forms were missing when submitted to school treasurer.

*Effect of the Condition:* Limited documentation of money received from students/parents/teachers.

*Recommendation for Correction:* Multiple receipt forms with student's signature should be utilized when teachers/sponsors are collecting money.

**Management Response:**

*East Valley Elementary:* EVES will use multiple receipt forms each time money is collected. If a multiple receipt form is not used the appropriate form will be.

*Morgan County Middle:* All teachers/staff will use multiple receipt forms with student's signature when collecting money.

2013-05 Signed Blanked Checks Should Not be Issued (Redbook)

*Statement of Condition:* Signed Blank Checks were issued for payment.

*Criteria for Condition:* The school treasurer shall match up the purchase order, shipping document (if applicable), and vendor or standard invoice and verify that all items ordered have been received, services have been satisfactorily performed, all amounts agree, and that all necessary approvals and signatures have been obtained. Any problems or discrepancies shall be resolved before a check is written per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

*Cause of the Condition:* Several hand written checks cleared the bank statements. This leads us to believe that a blank signed check was issued and a receipt or invoice was then later turned in to be recorded.

*Effect of the Condition:* Blank checks are issued with no restriction on payee or amount.

*Recommendation for Correction:* All checks should be printed through the system *after* all supporting documentation has been received.

**Management Response:**

*East Valley Elementary:* All checks will be issued via accounting program after all appropriate authorized documentation has been received.

MORGAN COUNTY PUBLIC SCHOOLS  
RECOMMENDATIONS AND  
COMMENTS TO MANAGEMENT  
JUNE 30, 2013  
(Continued)

2013-06      All Checks Should Have Two Signatures (Redbook)

*Statement of Condition:* All checks should have two signatures before being issued.

*Criteria for Condition:* All checks written on the Activity Fund shall contain the signatures of the principal or his/her designee, and the school treasurer per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

*Cause of the Condition:* Checks cleared the bank without two signatures.

*Effect of the Condition:* Expenditures did not received proper and complete authorization.

*Recommendation  
for Correction:* All checks must be signed by principal or his/her designee and the school treasurer.

**Management Response:**

Morgan County Middle: Principal will designate an alternate individual to sign checks if he is not available to do so himself. All checks will have principal or his designee and the school treasurer signature on them.

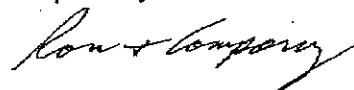
**Prior Year Findings –**

2012-01: Fixed Asset- (Corrected)

If any action occurs after this exit conference date, which affects the significant or material findings, it is the responsibility of management to provide that information to the auditors.

We sincerely appreciate the courtesy extended to our audit staff again this year. Of course, should you have any questions or concerns regarding your audit, please feel free to contact us.

Respectfully Submitted,



Ross & Company, PLLC  
November 12, 2013